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HOUSE GOVERNMENT REFORM COMMITTEE
NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL
RELATIONS SUBCOMMITTEE**

**Statement of
Major General Daniel G. Mongeon
Director, Logistics Operations
Defense Logistics Agency
Hearing before the National Security, Emerging Threats and International
Relations Subcommittee
Of the
House Government Reform Committee
June 7, 2005**

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Good afternoon, Mr. Chairman, Mr. Kucinich, and distinguished members of the Subcommittee. I am Major General Daniel Mongeon, Director of Logistics Operations (J3) at the Defense Logistics Agency (DLA). I appreciate the opportunity to discuss the findings of the draft March 2005 Government Accountability Office (GAO) Report and inform you of the actions that we have taken and will take to improve our excess reutilization program. As the Director of Logistics Operations, I am responsible for the procurement, management, storage, and distribution of some 5 million line items for our military customers, various federal agencies, and allied forces. In accomplishing this worldwide mission, DLA uses four major supply centers, five DLA service centers, a distribution system with 26 depots, and a reutilization and disposal service with 92 Defense Reutilization and Marketing Offices (DRMOs) in 48 states and 28

countries. With me today, is Colonel Patrick O'Donnell, USA, Commander, Defense Reutilization and Marketing Service (DRMS).

The primary mission of the 22,000 men and women of DLA is to provide the best possible logistics support to America's Warfighters. Supporting the military services is DLA's number one priority, and our demonstrated ability to provide virtually every consumable item imaginable – food, fuel, medical supplies, clothing, weapons systems repair parts, and construction material to our forces in Afghanistan and Iraq is a testament to our talented and dedicated workforce. The challenges posed by the Global War on Terror are being met with innovative business practices and collaborative partnerships with OSD, the combatant commanders, the services, and industry. We are improving our end-to-end distribution and disposal processes, modernizing our infrastructure and technology, and streamlining our business practices to integrate the supply chains. The common threads of our efforts are people, processes and technology.

Today, however, I realize the Committee's focus is on the economy and efficiency of the Department of Defense (DOD) excess property reutilization program; in particular, the concurrent procurement and disposal of items that are serviceable but excess. The Defense Reutilization and Marketing Service (DRMS) is the executor of the reutilization program. DRMS is a one of a kind support command, responsible for providing hazardous material/waste disposal, demilitarization, reutilization or disposal of excess or damaged/destroyed equipment for each Combatant Command and Military Service. DRMS

accomplishes this mission at 92 locations in 15 foreign countries, multiple Theaters and throughout the United States to ensure effective and efficient support to the Warfighter.

The Government Accountability Office's March 2005 report to Congress identified issues with excess property inventory data; oversight, accountability, and physical control of excess property; outdated, non-integrated inventory systems; and training. Mr. Chairman, we recognize the issues identified in the GAO report and fully understand the importance of ensuring the Department of Defense has a viable reutilization program. DLA is committed to achieving a proactive and aggressive plan to combat management challenges in our reutilization program.

We concur with the recommendations of the GAO Report. The recommendations agree with a series of actions we had already initiated to increase management oversight and improve inventory management/property accountability of excess materiel. These actions include increased senior leadership involvement to monitor adherence with policy, guidelines and performance standards, and quarterly progress briefings to the DLA Director. We are developing performance metrics directly associated with this Audit to add to the Director's monthly management and corporate reviews of the Agency's performance. We have also established a Compliance Assessment Program geared towards policy oversight and monitoring the performance of DLA's reutilization and marketing program.

Additionally, DRMS will implement an aggressive inventory initiative program designed to: 1) identify the root causes of property accountability errors, 2) train employees 3) provide comprehensive formal training on policy, processes and systems and clean up the physical warehouse location balances 4) hold all employees accountable for their functional areas, 5) and correct the accountable transaction records.

In further response to the GAO findings, DRMS is implementing policy changes, is currently reviewing training, and has introduced new inspection protocols. On May 5, 2005, DRMS issued new guidance on counting excess property inventory that revises inspection protocols, ensuring actual quantities are accurately verified at receipt. DRMS will strictly monitor its excess property inventory accuracy via its Self-Assessment and Compliance Assistance Visits, with HQ DLA oversight through the DLA Director's corporate reviews.

Resolving the concurrent purchase/disposal dilemma requires a synchronized response by all of the players involved – OSD, the Services and DLA. We must begin by resolving the issue with the assignment of condition codes. We concur with the GAO report's conclusion that it is critical that the Services and DRMS ensure the proper assignment of condition codes. Failure to assign correct condition codes minimizes the efficiency and effectiveness of the Department's reutilization program. To address this issue, OSD directed the Military Services and DLA to review their procedures and provide accurate excess property turn-in documentation and establish appropriate accountability mechanisms for the disposal of excess/surplus property. To assist in this effort, I

directed the DRMS Commander to work closely with the Military Services to improve training and awareness of the impact of inaccurate data. DRMS is now partnering with the Defense Training Center (DTC) to develop in-depth property accounting courses for employees and supervisors that will provide long term solutions to this problem. In addition, DRMS is reviewing and updating its Web-based training tools for the Services, as well as its internal training for subordinate DRMO personnel – both employees and supervisors. Also, DRMS issued guidance to the DRMOs reminding them of their responsibility to challenge or change condition codes as outlined in DOD 4160.21-M Disposal Manual.

GAO correctly recognizes deficiencies in our current automated systems and their impact on the concurrent purchase and disposal issue. Today our supply inventory and excess property inventory management systems do not interface. Consequently, Item Managers are required to manually query the DRMS Automated Information System (DAISY) for information on the availability of serviceable excess property before initiating a purchasing action. This step is time-consuming, given the fact that DLA must rapidly process over 54,000 requisitions a day in order to meet the immediate needs of the Warfighters. Our long-term solutions lie in emerging systems; Both HQ DLA and DRMS have taken action to improve visibility of excess assets. DRMS expanded the use of existing Pre-receipt Want Lists, Automated Want Lists, and expedited processing property visibility on the DRMS website. DLA is currently developing metrics to

further monitor the Inventory Control Point's utilization of DRMS' serviceable excess.

Since 2004, DRMS leadership has been working closely with DLA's Business Systems Modernization (BSM) Design Team to enhance support of the two-fold mission of facilitating the reutilization of property in good condition and disposing of property DOD cannot use.

DLA's BSM Release 2.2 functionality enables maximum use of DRMS' A1 condition excess. By proactively seeking to identify and recoup assets, DLA will maximize the utilization of assets at DRMS. Release 2.2 is planned to be operational in early Calendar Year 2006.

As DLA continues to modernize business processes and implement information technology solutions, the DRMS disposal processes will be incorporated into the BSM enterprise strategy. This disposal service initiative is known as the Reutilization Modernization Program (RMP). RMP will increase asset visibility and integrate the redistribution of excess property into the supply chain for maximum effectiveness. The overall RMP development/implementation timeframe is Fiscal Year 2006 – 2009.

BSM's Recoupment process will give DLA users the functionality to view serviceable excess property matches in an integrated and automated manner. Implementation of RMP will further align the recoupment processes within BSM. The goal of RMP is to fully incorporate DRMS' excess property data into BSM and use a single, Enterprise-wide integrated software backbone. This will give DLA users instantaneous visibility of all available DLA inventory, including DRMS

managed serviceable excess property. A modernized disposal system will provide DLA with the ability to better manage both the near-term and long-term disposal needs of DOD.

In response to GAO's concerns about adequately safeguarding excess property inventory from loss, theft, and damage, DRMS leadership has directed an increase in oversight of site security and improvement in reporting and tracking systems that will help distinguish bookkeeping errors from actual property losses. DRMS is working to upgrade physical security at DRMO sites where security risks exist. DRMS is also inspecting all government owned, contractor operated facilities and will evaluate the findings and invest in the appropriate upgrades for safeguarding property.

We agree with GAO's concerns regarding human capital shortages. A contributing factor was a leadership decision to conduct a public-private competition (A-76) for select distribution functions at the 68 DRMO's in the United States. This competition began in 2001 and is projected for completion this summer. During this period it was not prudent to hire permanent government employees during the competition. To mitigate personnel shortages, DRMS increased use of contract employees, sent experienced personnel TDY to the most severely affected DRMOs, and relocated some of our more seasoned specialists. The completion and award of the A-76 competition will result in an organizational and physical structure that will consist of fewer DRMOs, provide appropriate staffing levels, improve command, control and communication, ensure more efficient utilization of facilities, and improve workload management.

Mr. Chairman, DLA's top priority is to support the American Warfighter. To that end, we recognize that by resolving the issues identified by the GAO, the men and women on the frontlines of the Global War on Terrorism will be better served. We are committed to meeting the challenges laid out in this report. We are confident increased leadership oversight, changes in policy and procedure, modernized business systems, investment in human capital and resources, will allow us to better use our resources and ensure America's fighting forces remain the best equipped in the World.